Things to Consider Before Buying Your Next Property

(Investment Edition)

(This is the second instalment of the series on purchasing property. Do read the first article before this one, to get a more solid understanding of how things work.)

Purchasing a piece of property is a big investment that shouldn't be taken lightly. It is an exciting experience and can reap benefits if you know how to play your cards right. Whether you're signing on the dot for personal reasons or for investment, there are things to properly consider before finalising your decision. Read on for some of my tips on buying property for investment purposes.

The two main reasons for purchasing property for investment are 1) rental yield, or 2) capital gains. To find out which reason can justify your purchase, let's look at them individually.

1. Investing for Rental Yield

Here are 3 reasons people buy property for investment:
1) They already have a place to live and want to earn a side income.
2) They are buying a second place to be their retirement home once they can sell their current one, and so rent out the newer place in the time being to help subsidise the cost of the second apartment.
3) They just want a place to call their own and use the room rent collected to pay for their monthly mortgage.

Whatever the case, the most desired scenario would be to rent out the second property without any period of vacancy.

Rental yield can be calculated by taking Annual Rental Income / Property Value X 100%. Doing this can give you a yield of around 3%, or maybe even more, depending on the numbers. Many buyers may be satisfied with this number, but this value only scratches the surface.

Most people forget to include in their calculations costs like rental expenses, renovations, repairs, mortgage, taxes and agent commissions. When you own two properties, one of which is purely rented out, you will need to pay taxes for both, and each at a different tax rate.

To emphasise the difference in property tax you need to pay for the two properties:

For an annual value (AV) of $30,000, the owner-occupied property incurs a progressive tax rate of 0% for the first $8,000 and 4% for the remaining sum. In comparison, the non-owner-occupied property incurs 10% tax straightaway for the whole $30,000. Will your rental yield be enough to cover both, or at least the one for your rented unit?

When taking all the math into consideration, it's more likely you get a yield of close to 0% or even venture into the reds. This article clearly explains this scenario.

Other important points to note are the location of your property and whom you are planning to rent it out to. Some districts in Singapore are more popular to expats, some to students and others to locals. Different tenants have different lifestyle needs and wants, and where they choose to rent will depend on what the specific district can provide. Are they looking for a more family-friendly area, or do they prefer to be close to the CBD? Do they like nature? Will they prefer a quieter neighbourhood or one that is closer to the MRT station and bus interchange? Knowing your target tenants will help you a lot to decide if a particular location is ideal for your investment needs.

I can dwell more into the various factors that can affect your rental yield, but the idea is that you need to be vigilant and not miss anything out. Buying property for rental purposes is really a gamble. This is why instead of investing for rental yield, if you are looking to maximise profits over time, I'd recommend you invest for capital gain.

2. Investing for Capital Gain

Timing is of essence when it comes to making any form of investment and the property market is no exception. It can affect how much profit you'll make from your investment and of course you'll want as much profits as possible.

What is capital gain? Simply put, it is the profit you earn when you buy and sell a piece of property. Maximising your capital gain is more straightforward than looking to maximise rental yield. Why?

Studying capital gains needs less frequent analysis.

When you want to buy a piece of property to sell, you are in this for the long term. You are aware of the property market cycle and know that the best time to make your purchase is when the market is just starting to recover. The main things you need to concern yourself with are buying the correct property (at the beginning of the process) and then selling it years later when the conditions are right for you to make a good profit (at the end of the process).

You don't need to burden yourself with getting tenants (although you can, if you wish to rent out your place), the amount of rent to be collected each month, the tenure of rent and other rental expenses like repairs. If you make a monthly loss on your rental yield, it's fine because you can still earn more than that when you sell the place a few years down the road.

Compared with the other metropolitan developed cities of London, New York and Hong Kong, property prices in Singapore are much more affordable and conditions are also more favourable. Singapore is an ideal place to purchase property for capital gain, mainly because property prices follow an increasing trend and capital gains are not taxed. This means you get to keep all the profits from the sale – who doesn't like that?

Seeing that most property owners will sell their assets at a higher price than what was paid, the following question then arises: Who is going to buy these "second-hand" units? As mentioned, the prices of property generally increase over time no matter what and *when* you purchase. If you are able to sell it at the right time – when the cycle is entering its recovery stage – then that's when the finance-savvy investors will place their money in your hands. And these new investors will purchase for all the reasons mentioned above (and in the previous article).

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Understanding the market is key to succeeding in this illiquid economy.

Always seek professional advice and guidance when it comes to a big purchase like this. Feel free to contact me via Whatsapp (+65 9047 0416), Facebook (https://www.facebook.com/roxannechiarealty/) or email (roxannecera@gmail.com) for a non-obligatory consultation.